



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 15, 2008

H.R. 6580 **Hubbard Act**

As cleared by the Congress on August 1, 2008

The Hubbard Act would enhance separation benefits for servicemembers who are sole survivors. The act would define a sole survivor as a member of the armed forces who is the only surviving child in a family in which the mother or father, or one or more siblings, died or were severely injured, while in service, or as a result of service in the military, through no fault of their own.

CBO and the Joint Committee on Taxation (JCT) estimate that, on net, the effects of H.R. 6580 on direct spending and revenues would lower deficits (or increase surpluses) by about \$5 million over the 2009-2018 period.

Enacting H.R. 6580 would increase direct spending in several ways, with cumulative costs of about \$1 million over the 2009-2018 period. Based on information from the Department of Defense (DoD), CBO estimates that the act would provide certain enhanced separation benefits retroactively to about 55 servicemembers and, going forward, to about 20 servicemembers a year. Those enhanced benefits include receiving separation pay despite serving less than six years and getting pay for any portion of bonus pay collected or withheld for not completing a period of obligated service. The act also would grant sole survivors various veterans' benefits, including eligibility for housing loans, job training, and education benefits, that an early departure from the military may have otherwise denied them. Finally, H.R. 6580 would make sole survivors eligible for unemployment compensation. The estimate of small direct spending costs is based on information from DoD, the Department of Veterans Affairs, and the Department of Labor.

In addition, enacting H.R. 6580 would increase revenues, more than offsetting the direct spending costs cited above. JCT estimates that a provision relating to funeral trusts would increase revenues by \$6 million over the 2009-2018 period.

An individual may establish a "qualified funeral trust" provided that all funds in the trust are used to pay for funeral or burial services or property for the benefit of the trust's beneficiaries. The income earned on such a trust is taxable at the tax rates on estates and

trusts. Under current law, if a funeral trust accepts aggregate contributions in excess of a certain dollar amount, it ceases to be a qualified funeral trust. The income earned on those trusts would be taxable at rates applied on ordinary income of individuals, which is generally taxed at a lower effective rate. The act would eliminate the dollar limitation on contributions to a funeral trust, thereby increasing the amounts of funds within qualified funeral trusts and thus the amount of income that would be taxable at higher rates. JCT estimates that additional revenues would amount to \$3 million over the 2009-2013 period and \$6 million over the 2009-2018 period.

On July 25, 2008, CBO transmitted an estimate for H.R. 6580 as introduced on July 23, 2008. That version of the legislation is similar to the version cleared by the Congress and the estimated effects on direct spending and revenues are the same. (The previous CBO estimate also provides details on the act's impact on discretionary spending: potential costs of \$1 million over the 2009-2013 period, subject to the availability of appropriated funds.)

The CBO staff contact for this estimate is Dawn Regan. This estimate was approved by Peter H. Fontaine, Assistant Director for Budget Analysis.